

What Should We Do When Our Organization Discovers Fraud?

by Michael David Schulstad, CPA, CFF, CGMA, FBI (ret.)

Leaders can hire the best individuals, conduct background checks, implement internal controls and still be victims of fraud. Here's how to react if it happens to you.

I have spent the last 35 years investigating fraud in almost every kind of scenario you can imagine. I served 25 years as an FBI Special Agent and 10 as a fraud investigator with national CPA firms. Whether it is a bank, a business, a religious organization, a government entity or a private firm, trust is an important component of any organization. No organization can function efficiently without some level of trust. Leaders hire the best and most trustworthy individuals, conduct background checks, implement internal controls and still things go wrong.



Agencies will prosecute the perpetrator, and it may take a long time for the process to run through the courts, but you can't rely on them to help fix your processes, tighten your internal controls or recover your funds.

What are the first steps to take when you discover a suspected fraudster?

What do you do with the person who committed the fraud? For employees, no matter how much you admired, respected or trusted them, it is imperative that you quickly remove all access to company bank accounts, credit cards, financial records, payroll systems, accounts payable, accounts receivable, company computers, email and facilities while the matter is being assessed. Immediately recover all company-issued keys, access cards, equipment and computers. For all computers used by the fraudster, secure the computer first: Do not turn it on or off; simply unplug it. You should consider having an image made of all hard drives to preserve potential evidence.

Do not allow suspects to remove anything from the office, including personal items. Their desks and work spaces should be thoroughly searched and inventoried. Personal items will be returned after careful review for evidence of the crime.

This is probably the most difficult part of the entire situation, but you must remember that no matter how much you liked the person, and no matter how difficult the situation may be for fraudsters, they took advantage of your trust and used it against you.

And do not forget, you must also take appropriate steps to ensure that others in the organization are not participants in the scheme.

Is our insurance coverage adequate and appropriate?

Most companies will have some type of insurance to address fraud, but in most instances the coverage is minimal.

Reviewing your coverage today will make it easier to address fraud losses in the future. Your coverage should also cover the cost to hire an outside forensic accountant, investigator and attorney to help quantify the loss, maximize your response and protect the company throughout the investigation from any claims brought against you.

Should you contact law enforcement?

Yes, file a report. Generally, law enforcement is focused on the investigation and prosecution of the individuals who committed the fraud. In most cases, law enforcement agencies will not provide you with the results of the ongoing investigation or offer information about what happened to cause the losses. Agencies will prosecute the perpetrator, and it may take a long time for the process to run through the courts, but you can't rely on them to help fix your processes, tighten your internal controls or recover your funds.

Engaging a forensic accountant to conduct a thorough investigation, work closely with law enforcement and turn over the results to the law enforcement agency can help facilitate your legal response. Law enforcement agencies will welcome the assistance and can also issue subpoenas or obtain search warrants based on the information your forensic accountant provides. A forensic accountant is a valuable asset and can help ensure the proper collection of evidence, help law enforcement pursue a successful resolution and testify in court.

What is the role of your attorney?

You absolutely need an attorney. Your company is now confronted with several

legal matters requiring the assistance of a good attorney. The attorney will help guide you through the legal issues, protect your company's assets and make sure you accurately complete the requirements of the insurance claim. In addition, your attorney will ensure you and your company stay out of harm's way as the perpetrator faces the legal consequences and potentially looks to blame someone else for the crime. Your attorney will work closely with your forensic accountant and investigator and may seek to maintain the attorney-client privilege and help ensure efficiency and minimization of costs.

Don't let it happen ... again

It is safe to say that almost every organization has been or will be confronted with a fraud incident at some point. So what do you do when it is your turn to face the inevitable fraud scenario? How do you respond? Most of the time you are not prepared, and the first few days are spent wondering how this could happen. The next phase is usually anger, and then back to "How could this happen?"

Even when you have put in place all recommended internal controls, fraud still happens. Most of the time organizations survive and recover, but it is still a painful and sobering experience for everyone involved. Many changes should be implemented so it does not happen again. But what if you had those changes in place before you were a victim? Could that have prevented this from happening in the first place? Most likely the answer is "yes."

It is always better to plan ahead and prepare yourself and the organization to confront these situations when they happen or prevent them from happening in the first place. However, no matter what you do, it is still possible to be a fraud victim. ●

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